

Opening Statement of Chairman Evan Bayh
Subcommittee on Security and International Trade and Finance
Hearing on “International Cooperation to Modernize Financial Regulation”
September 30, 2009

Good afternoon. I am pleased to call to order this Subcommittee for a hearing entitled “International Cooperation to Modernize Financial Regulation.” I want to thank the Banking Committee Chairman, Senator Dodd, and his staff for their assistance in arranging this hearing and for the chairman’s support in looking into these important matters.

One year ago, our country experienced a financial crisis, fueled by home foreclosures and institutional failure. The markets dropped drastically and credit began to freeze as banks refused to lend to families, businesses and one another. It soon became apparent that no one was immune---our financial crisis quickly became a full-blown economic crisis, complete with a housing decline and our nation shedding an average of 700,000 jobs each month. My home state of Indiana was hit particularly hard.

It was clear Congress needed to intervene with massive government assistance to help stabilize our financial markets and prevent complete economic collapse. As I said at the time, it was a “distasteful, but necessary step to protect millions of innocent people.”

A year later, we are on a path to recovery. It will take some time for our financial system to completely heal, but in the meantime it is the responsibility and duty of lawmakers to be willing to take the steps towards long term reform, to make sure this situation does not happen again. The Senate Banking Committee has already held approximately 30 hearings since this January on the issue of financial regulatory modernization.

It would be challenging enough to reform our regulatory scheme here in the US and ignore the efforts internationally, but that would neglect our economic reality. We live in an interconnected global economy, and as we’ve seen, that means interconnected global problems. Vulnerabilities and gaps in financial markets abroad, can impact us here at home. Any reform or rules we enact here, at some level should be matched or harmonized abroad to ensure capital does not gravitate to the lowest common denominator.

Two weeks ago, in a speech before Wall Street, President Obama reaffirmed his commitment to financial regulatory modernization and the need to close the gaps and harmonize our collective rules. He stressed that the United States needs to play a leadership role in lifting our global regulatory standards to ensure there is a “global race to the top.” This is necessary to 1) prevent the regulatory arbitrage that puts our entire financial system at risk and 2) make sure we remain competitive with other nations. In light of that commitment, we are moving forward with today’s hearing to show our support for this critical component of regulatory reform. Today, we will hear from our three witnesses on the work that is underway to coordinate our regulatory structures.

We have already laid the foundation to begin this process. In an effort to coordinate financial regulatory reforms, world leaders began working together at a series of

international meetings to address changes in policy, regulations, oversight and enforcement. The first was in November 2008 here in Washington, DC.

At that meeting the leaders approved an action plan that included instructing the finance ministers to make specific recommendations in a number of areas. Some of the most important included: avoiding regulatory policies that exacerbate the ups and downs of the business cycle; reviewing incentives for risk-taking and innovation reflected in executive compensation practices; AND strengthening the regulatory scheme for credit derivatives and reducing their systemic risk.

The G20's next meeting was in April 2009 in London. There, the leaders focused on the issues of coordination and oversight of the international financial system with the creation of the Financial Stability Board. The Financial Stability Board is an extension of a previous international organization—the Financial Stability Forum, with an expanded membership to include all G20 countries, Spain and the European Commission.

Our three witnesses today are the United States' representatives to the Financial Stability Board and I look forward to hearing their thoughts on this reinvented organization and how effective it will be at enacting change.

Leaders at the London Summit also agreed to work on cross border cooperation; closer regulation of banks, hedge funds and credit rating agencies; and a crackdown on tax havens--- all very important issues.

Lastly, the United States asserted our leadership in these international economic issues by hosting the Pittsburgh summit last week. I am particularly interested in hearing from our witnesses on what was accomplished at the G20 Summit in Pittsburgh on the international harmonization aspects of regulatory reform. Specifically, we'd like to know the US goals of the Summit, if the objectives were accomplished, the roles played by the respective government witnesses, and the status of any proposals presented by the Financial Stability Board.

The conventional wisdom on international coordination is that at the Summits, countries talk globally, but afterwards they act locally. This hearing and the oversight our Subcommittee will conduct on this issue throughout this lengthy process is one way to ensure the momentum is not lost.

However, the work is not completely laid at the feet of the Administration and our international standard-setting entities. Congress has some responsibility in this debate, as well. The biggest question for Congress is how much our regulatory modernization should be harmonized with international norms and standards and what we should do when there are conflicts on proposals that may not be consistent with US interests or what Congress prefers.

These are difficult questions, but I trust that my colleagues here in the Senate and those witnesses sitting before us today are willing to put in the work to make sure we make the right decisions and get something done.

Let me close by reiterating how critical these efforts are to our global economic recovery and future success. Last year, as Congress passed the Economic Emergency Stabilization Act and TARP, I said *“I’m not a cynic, but I am a skeptic about the way Washington can work in times like these. Congress will act in a moment of crisis, but once it has abated, the sense of urgency will dissipate. The forces of reform will not have the energy that they have today. All the interests will circle this place like hungry birds looking at carrion in order to prevent us from taking the steps that are necessary. We must not let that happen.”* Here we are a year later, and we must remain committed to seeing through long term reform. We need to bring the same sense of urgency that was palpable during the crisis.

###